

STATE OF WASHINGTON



OFFICE OF
INSURANCE COMMISSIONER

REPORT OF MARKET CONDUCT EXAMINATION

OF

COLONIAL PENN INSURANCE GROUP

2323 West Rose Garden Lane

Phoenix, Arizona 85027-2530

as of December 31, 1996

Seattle Washington

June 25, 1997

Deborah Senn
Insurance Commissioner
Olympia, Washington 98504

Dear Commissioner Senn:

Pursuant to your instructions and in compliance with the statutes of the state of Washington, a market conduct examination has been made of the procedures, underwriting and claim files of

COLONIAL PENN INSURANCE GROUP

2323 West Rose Garden Lane

Phoenix, Arizona 85027-2530

and this report of examination is respectfully submitted.

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EXAMINATION REPORT CERTIFICATION

This examination was conducted in accordance with Office of the Insurance Commissioner and National Association of Insurance Commissioners market conduct

examination procedures. This examination was performed by James Rigney and Shirley Merrill, who also participated in the preparation of this report.

I certify that the foregoing is the report of the examination, that I have reviewed this report in conjunction with pertinent examination work papers, that this report meets the provisions for such reports prescribed by the Office of the Insurance Commissioner, and that this report is true and correct to the best of my knowledge and belief.

Pamela Martin

Chief Market Conduct Examiner

Office of the Insurance Commissioner

State of Washington

SCOPE OF EXAMINATION

A previous market conduct examination of the Colonial Penn Property and Casualty Group was completed for Washington State in 1991. This is the second examination limited to policies written and covering in the State of Washington and was a full periodic re-examination.

Colonial Penn Insurance Company and Colonial Penn Franklin Insurance Company are the only two property and casualty companies of the group authorized in Washington State. Therefore this examination addressed only these two companies, as did the prior examination.

This examination included policies issued or terminated during periods from January 1, 1996 to December 31, 1996, and claims closed during the same time frame. The examination included reviews of the following areas of the companies' operations:

- Advertising
- Rate and Form Filings
- Procedures for Complaint Handling
- Claims Settlement Practices
- Cancellation, Non-Renewal and Declination Practices
- Underwriting and Rating Practices

The examiners also focused on problems noted in the prior examination. One instruction and one recommendation were given in that report. The companies were instructed to correct a programming error in order to advise insured's of any differences in premium from the expiring policy and a renewal policy, when an offer of renewal is made. The examiners had also recommended the companies establish a method by which the Regional office could better verify coverages and/or resolve coverage questions in a claims situation in a more timely manner with their home office.

It was noted during this examination that steps were taken to correct and implement changes necessary to resolve both the instruction and recommendation.

HISTORY, OPERATIONS, AND MANAGEMENT

The Colonial Penn Group includes the following companies: Colonial Penn Insurance Company, Colonial Penn Franklin Insurance Company, Colonial Penn Madison Insurance Company, Bay Colony Insurance Company (formerly Colonial Penn Heritage Insurance Company), Bayside Casualty Insurance Company, Intramerical Life Insurance Company, Colonial Penn de Mexico Compania de Seguros S.A. de C.V., and Colonial Penn Life Insurance Company. The group was purchased by Leucadia National Corporation in April of 1991. As previously mentioned, this examination only concerned the two property and casualty companies authorized in Washington state, Colonial Penn Insurance Company and Colonial Penn Franklin Insurance Company.

The companies write personal lines coverages only. The group's main focus is their automobile line of business, which targets mature drivers. They also write homeowner and personal umbrella policies, still targeting the mature policy holders.

Automobile policies can be written in Colonial Penn Insurance Company or Colonial Penn Franklin Insurance Company, while homeowners may only be written in the Colonial Penn Insurance Company. Colonial Penn Franklin Insurance Company is the preferred market for automobile and the rates are approximately 11% lower than Colonial Penn Insurance Company.

Their business is developed primarily by mass marketing techniques and processed through the companies regional offices located in Tampa, Florida, Valley Forge, Pennsylvania, and Phoenix, Arizona. All new business, renewals and endorsements are issued from the regional offices and printed in their home office in Valley Forge, Pennsylvania. As of February 1997, the Tampa office assumed the responsibility for the homeowners policies. The Phoenix office's main functions are sales, underwriting, policyholder service and claim handling. The companies also have an office in Illinois which processes glass and towing claims.

In Washington State in 1996, Colonial Penn Insurance Company wrote \$4,072,428 and Colonial Penn Franklin Insurance Company wrote \$4,695,989 in automobile premiums.

The directors and officers are the same for both companies. The directors are:

Joseph S. Steinberg, Chairman

Ian M. Cumming

Stephen T. List

Oliver L. Patrell

Richard G. Petitt

Harry H. Wise

Henry H. Wulsin

Henry H. Wulsin is also the President and Chief Executive Officer. Several other officers make up the corporate staff and assist in managing the companies.

ADVERTISING

The majority of the advertising the companies do is through mail solicitations, newspaper and magazine ads. The companies also do some radio and television advertising. The mailings are primarily pamphlets and brochures designed to encourage prospective insured's to complete an application or call a toll free telephone number and speak with a customer service representative. These representatives are trained to assist prospective customers in completing the application, or enrollment form as the companies call it. By way of a computer automated telemarketing system, customer service personnel can generate a premium quotation with various limits and options, which is then mailed to the customer.

Advertising materials were reviewed. None of the materials appeared to be false, misleading or discriminatory. It is the examiners opinion that the companies are in compliance with Washington advertising regulations.

RATE AND FORM FILINGS

The companies belong to or subscribe to the following rating and advisory organizations pertaining to their Washington State insurance business:

- American Insurance Services Group
- Insurance Services Office
- American Ins. Highway Safety Alliance
- National Insurance Crime Bureau
- Washington Surveying & Rating Bureau
- Surety Association of America
- Washington Insurance Examining Bureau
- Alliance of American Insurers
- National Association of Independent Insurers

Homeowner and automobile policy forms and endorsements are primarily promulgated by Insurance Services Office. The companies tailor their policies, utilizing information from the various advisory organizations, to fit their loss experience and the needs of their insured's, who are primarily senior citizens.

Rates, rules, forms and endorsements were reviewed. The examiners requested proof of filing and approval of a random sampling of the reviewed materials. Filings are done by a filing and actuarial department located in Valley Forge, Pennsylvania. All materials appeared to have been filed and approved prior to use.

However, the examiners do have one concern. WAC 284-30-500 (2)(a) requires an insurer to provide a named insured with an itemization of the premium costs for coverages under the policy for which there are identifiable separate premium charges. The declaration page, (form DP 3001 (6/75 Rev 6/81)) used on their private passenger auto policy does not comply with WAC 284-30-500(2)(a). On the declaration page, the companies lump the premium for Bodily Injury, Property Damage and PIP (personal injury protection) all into one premium. The premium for Comprehensive, including Towing and Labor are also lumped into one premium along with the premium for Collision coverage.

Each of these premiums are rated separately and should be shown separately. Although the form was filed and approved, this was done prior to implementation of WAC 284-30-500 (2)(a) effective July 1, 1985. Therefore, this form is no longer in compliance.

Subsequent Event:

In response to the draft market conduct report, a revised Declarations page (AS 90400-0194) was filed and approved effective 7/21/97. The revised form displays separate premium charges for each coverage or group of coverages for which a premium has been filed.

COMPLAINT HANDLING PROCEDURES

The companies define a complaint as "Any written communication primarily expressing a grievance." When a complaint is received by the companies, it is logged in and given to the appropriate department (which generated the complaint) manager for handling and response. If the complaint is considered to be justified, the manager must complete a complaint control form. This form requests the following information: what caused the complaint, how the complaint could have been prevented, and what steps are being taken to prevent a similar complaint in the future. These are then discussed in staff meetings.

A review of the ten complaints received by the companies was performed. Of the ten complaints reviewed, five were received directly from consumers and five were received via the Office of the Insurance Commissioner. Although the company maintains a separate log dependent upon who submitted the complaint, their procedures for handling and resolving complaints are the same. Examination of the complaints for the time frame of this examination, indicated they had all been properly resolved in a timely manner.

CLAIM SETTLEMENT PRACTICES

A total of 319 claim files were reviewed. 137 of the claims were First Party Automobile Total Losses. Of the 137 total losses reviewed, the companies failed to include the unexpired portion of the license fee on twenty-six of the claims. WAC 284-30-390 (1)(b) requires that on all First Party Total Losses this amount must be included in the settlement. These were referred to management and checks were sent to the insured's for the correct amounts. See the Appendix for a listing of the claim files in which the insured was not reimbursed for the unexpired portion of the license fee. Due to the number of errors, all first party total losses were reviewed. All other losses reviewed were handled in an appropriate manner and were in compliance with Washington State statutes.

SUBSEQUENT EVENT:

During the course of this examination, the companies made changes in their written instructions to claim adjusters regarding the proper method of calculating the payment of the license fee.

CANCELLATIONS, NON-RENEWALS AND DECLINATIONS

Cancellation, Non-Renewal and Declination notices were reviewed to ascertain what the companies' practices and procedures were, and if they were in compliance with insurance laws in Washington State.

The following is a list of the notices reviewed:

- Of 688 automobile policies cancellations and non-renewals, 62 were reviewed
- Of 68 personal umbrella policies cancellations and non-renewals, 24 were reviewed
- Of 207 homeowner policies cancellations and non-renewals, 43 were reviewed

When a prospective insured calls the toll free number and requests a quote, the companies will decline to quote a risk that does not meet their underwriting guidelines. The companies will then follow up the verbal declination with a letter, again stating the reason(s) why the companies declined to write a particular risk.

When the companies send non-renewal or cancellation notices, they include a letter with each notice to explain in more detail the reasons for their actions. All notices examined gave a sufficient amount of time in the notices as required by the various Washington insurance codes.

It is the examiners opinion that the companies' handling of cancellations, declinations and non-renewals is in compliance with Washington State statutes.

UNDERWRITING AND RATING

Automobile policies may be written in the Colonial Penn Insurance Company or the Colonial Penn Franklin Insurance Company. The latter company is used for their "super" preferred insured's. All homeowners policies are issued through the Colonial Penn Insurance Company.

The companies use an complex computerized system to ascertain the appropriate company in which to place a prospective insured. The system used is based on the number of points assigned to the insured. The points are based on a myriad of factors such as: registration, operator, ages, sex, marital status, vehicles, health condition, use of vehicles, annual mileage, existing damage, occupation, home ownership, etc. Once the computer has analyzed all of the factors, points are assigned and based on the number of points received, the insured is placed into the company for which the insured is eligible.

The examiners reviewed 215 files. They were checked for accuracy of rating, classifications, territorial definitions and the proper use of symbols. No errors were noted in any of the files examined.

INSTRUCTIONS

1. The companies must correct their Personal Automobile Policy Declaration Page (form DP 3001 6/75 rev 6/81) to comply with WAC 284-30-500(2)(a) and refile the form to replace the one they are currently using. See page 5 of this report.
2. The companies must implement a system to insure that the unexpired portion of the license fee is paid when settling all first party total loss claims, as required by WAC 284-30-390 (1)(b). See page 7 of this report.

ACKNOWLEDGMENT

The examiners wish to express their appreciation for the courtesy and cooperation extended to them by the management and personnel of the Colonial Penn Insurance Group during the course of this examination.

APPENDIX

The following is a list of claims examined that did not include license fees in First Party Total Losses:

M 960010604	M 960101634	M 960158385	M 960023609
M 960173520	M 950107987	M 960151593	M 960020111

M 960104285	M 960024290	M 960026845	M 960069471
M 960029488	M 960115210	M 960005031	M 950196866
M 960024494	M 960002831	M 960168470	M 960154053
M 960072189	M 960106580	M 960174445	M 960024966
M 960018931	M 960105559		